Petronas Dagangan (PETD MK)

1Q26: Earnings Risks May Recur, Similar To 2022, But Remain Manageable

	BUY (Upgraded)
Share Price	RM17.74
Target Price	RM23.20
Upside	+30.8%

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Highlights

- **1Q26 profits in line, weakness expected in 2Q26.** 1Q26 results were supported by above-industry volume growth, and an unusually high retail segmental profit which benefitted from price gains, especially in Mar 26. This offset an assumed commercial segmental loss in Mar 26, which may likely extend towards 2Q26, on a sharp spike in prices of key commercial products such as jet fuel and diesel (beyond the movements of Brent crude prices). Assuming no major price downtrend in Jun 26, 2Q26 is expected to be weaker qoq.
- **Upgrade to BUY with an unchanged target price of RM23.20.** Similar to 2022, when earnings turned around from a major commercial loss in 1Q22 to a substantial profit by 3Q22, we expect an eventual normalisation of market conditions to mitigate current earnings risks, although the duration of the US-Iran conflict remains uncertain. Hence, the share price decline prior to the results release is unjustified, and we upgrade our call on valuation grounds.

1Q26 Results

Year to 31 Dec	1Q26 (RMm)	qoq % chg	yoy % chg	Comments
Revenue	11,150.6	5.4	22.6	1Q26 volume growth, yoy/qoq: +7%/-2%
-Retail	6,335.1	5.8	34.3	1Q26 volume growth, yoy: +8%
-Commercial	4,753.3	(89.5)	10.2	1Q26 volume growth, yoy: +5%
-Convenience	62.3	(3.7)	(3.1)	EBITDA: RM448m (4Q25/ 1Q25: RM420m/RM494m)
EBIT	385.7	6.7	(5.3)	Dated Brent oil price surged to US$104/bbl in Mar 26. Hence,
-Retail	325.3	185.4	68.5	1Q26 average of US$81/bbl was higher vs 1Q25's US$76/bbl
-Commercial	24.4	9.0	(86.5)	
-Convenience	36.0	40.1	5.4	In comparison, a listed peer PETRONM* 1Q26 domestic retail
Operating margin (%)	*3.5*	0.1	(1.0)	sales volume growth of 4% and total volume growth of -25%
Finance cost	(2.7)	(54.7)	(23.5)	
Associates	6.2	375.2	16.9	
Pre-tax profit	389.2	7.7	(4.9)	1Q26 exceptional items (EI):
Income tax	(97.9)	11.1	(9.4)	- RM3.0m impairment reversals
Net profit	283.0	9.3	(3.6)	- RM2.7m net forex gain
Core profit	273.6	0.7	(6.9)	- RM3.7m inventory writebacks

** Petron Malaysia Refining & Marketing (PETRONM)* *Source: Petronas Dagangan, Bloomberg, UOB Kay Hian*

Analysis

- **1Q26 core profit accounted for 24%/23% of our/consensus forecasts respectively.** Petronas Dagangan (PETD) declared its first interim DPS of RM0.18 (1Q25: RM0.20). Profits were supported by above-industry volume growth of 7% (PETRONM: 4% for domestic only) and outstanding earnings from retail segment, which benefitted from favourable gains in inventory vs the costs implied under the government's weekly APM, based on the Means of Platts Singapore (MOPS) pricing. This was especially during the shape spike of oil prices in Mar 26, and helped offset the market risks that negatively impacted the commercial segment.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	37,597	38,269	38,740	40,746	43,415
EBITDA	1,888	1,846	2,031	2,094	2,179
Operating profit	1,548	1,534	1,507	1,544	1,603
Net profit (rep./act.)	1,087	1,099	1,108	1,131	1,220
Net profit (adj.)	1,114	1,118	1,108	1,131	1,219
EPS	112.1	112.5	111.5	113.9	122.7
PE	15.9	15.8	15.9	15.6	14.4
P/B	3.0	3.0	3.0	3.0	2.9
EV/EBITDA	8.6	7.7	7.9	7.8	7.6
Dividend yield	6.0	6.3	6.3	6.4	5.3
Net margin	2.9	2.9	2.9	2.8	2.8
Net debt/(cash) to equity	-	-	-	-	-
Interest cover	157.4	127.3	60.5	52.2	60.0
ROE	19.3	19.5	19.7	20.1	21.4
Consensus net profit	-	-	1,174	1,202	1,218
UOBKH/Consensus (x)	-	-	1.01	0.92	0.92

Source: Petronas Dagangan, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Energy
Bloomberg ticker	PETD MK
Shares issued (m)	993.5
Market cap (RMm)	17,624.0
Market cap (US$m)	4,428.0
3-mth avg daily t'over (US$m)	5.8

Price Performance (%)

52-week high/low RM23.80/RM17.12

1mth	3mth	6mth	1yr	YTD
(12.6)	(19.4)	(10.5)	(13.5)	(11.1)

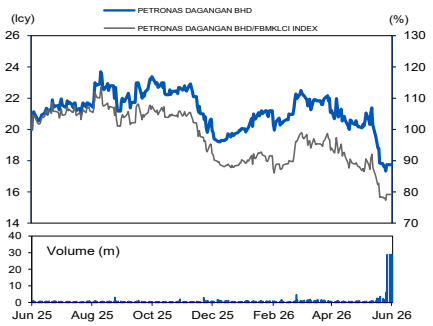
Major Shareholders

	%
Petroliam Nasional Bhd	63.9
Employees Provident Fund	12.6

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	6.01
FY26 Net Debt/Share (RM)	NA

Price Chart



Source: Bloomberg

Company Description

The principal domestic marketing arm of Petronas for downstream products, in retail, commercial, liquefied petroleum gas (LPG) and lubricants. Retail fuel economics were largely driven by the Automatic Pricing Mechanism (APM)

- **Commercial segment may replicate 1H22.** We recall a past historical precedence when the commercial segment recorded RM41m/RM6m losses in 1Q22/2Q22 respectively, which was the year of the Russia-Ukraine crisis which caused jet fuel and diesel prices to spike far above the increases of Brent. The key product that influenced this was jet fuel. The supply is contractually locked in with airlines for up to 12 months, and contract prices follow market prices, but with a lagged effect. Observing the commercial segment's RM24m earnings in 1Q26 vs the past quarterly earnings base of RM0.2b, we can assume the commercial segment likely reported a loss in Mar 26.
- **PETD assures no fuel disruption risks.** PETD has effectively eliminated inventory holding risk since it transitioned to an integrated supply chain structure under a new operating model since 2021. Despite having no inventory holding risk, PETD clarifies that its procurement of inventory is carried out on a monthly basis, and this frequency remains so even after the onset of the supply chain disruption related to the Straits of Hormuz. This undoubtedly helped to generate huge benefits in terms of pricing gains vs the APM costs during periods of sharp uptrend in MOPS prices, noting that the APM costs determined by the government are reasonably priced against MOPS movement at a lagged time effect. For fuel stations, PETD assures there are no risks of lower sales or earnings arising from inventory disruption by road tankers or multi product pipeline, or other aspects like working capital issues.
- **2Q26 may be weaker qoq.** While product prices have corrected partially and price volatility may still persist in Jun 26, we expect 2Q26 to see weaker retail other income (no more substantial price gains) and potentially a loss position in the commercial segment. This assumes the product price downtrend does not exist in June 26. It also assumes minimal volatility in sales volume given PETD's advantage in the local supply chain alongside all oil companies' commitment in product availability towards national energy security. This advantage is playing a bigger role in this energy crisis more than ever, as peers like Petron Malaysia recorded -25% growth in total sales volume (including exports) due to the shutdown of its Port Dickson refinery since the collapse of the product jetty in Nov 25.

Valuation/Recommendation

- **Upgrade to BUY from HOLD with an unchanged target price of RM23.20.** This implies 21x 2026F PE and a dividend yield of 4.2%. While earnings risks are unavoidable, we believe PETD is well positioned to weather any uncertainties. It has ample working capital to withstand another level of stress receivable and cash flow risks without constraining dividends. Hence, the share price decline prior to its results release last week was unjustified in our opinion, and we take the opportunity to upgrade based on valuation grounds.

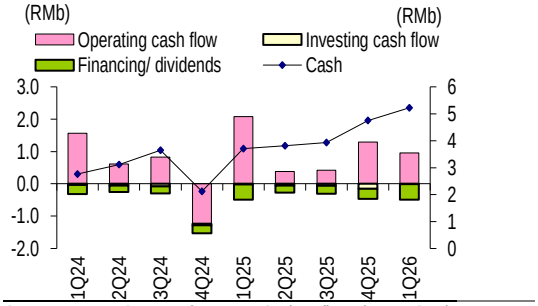
Earnings Revision/Risk

- **Retain earnings forecasts.** Even if 2Q26 earnings turn out dismal, there is a possibility of an earnings rebound in 2H26, similar to 2022.

Jet Fuel Price Movements vs Brent Crude Prices Since Mar 26, May Reflect 2022

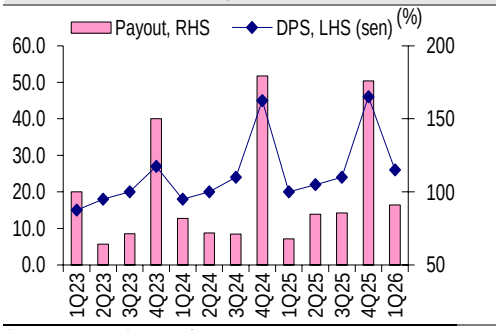
Source: International Air Transport Association (IATA)Jet Fuel Monitor

Cash Balance, Quarterly



*Source; PETD, UOB Kay Hian *Note: Cash Reflected on RHS axis*

Dividends, Quarterly



Source; PETD, UOB Kay Hian

Comparison: 2022 vs 2026 YTD

- The underlying product price movements like diesel and jet fuel vs Brent price movements were similar in the periods of Russia-Ukraine war (2022) and US-Iran conflict (2026 to date)
- As.per the chart below, jet fuel prices surged in early 2022, but quickly corrected after 2Q22. PETD recorded a surprise loss in commercial segment at RM41m in 1Q22, before narrowing to a RM6m loss in 2Q22 (no breakdown of losses from a specific segment like jet fuel was revealed)
- A general downtrend of jet fuel prices was a key reason for an unusually high commercial segmental profit of RM274m. in 3Q22
- In 2026, jet fuel prices more than doubled from US$90/bbl before the war, to as high as US$200/bbl. Today, jet fuel prices averaged US$140/bbl while Dated Brent price was US$98/bbl.
- However the war duration and a normalisation of jet fuel supply and prices remains unpredictable. The players of the war now extends beyond US, Israel and Iran, to Lebanon, Hezbollah and etc.

Source; PETD, UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental

- Green Energy for its fuel stations. Installing solar panels and collaborating with GreenTech to provide ChargeEV facilities
- Promoting green fuel and circular economy. Early adopter of B100 Biodiesel fuel. Fuel stations are being used as collection platforms to collect Used Cooking Oil (UCO) as feedstock for Sustainable Aviation Fuel (SAF)

Social

- Supply chain. Support enterprises as station dealers or Kedai Mesra suppliers
- Actively participate in Petronas social activities, for example supporting communities of the Putra Heights

Governance

- 6 out of 10 board members are independent.

Source; PETD, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	38,269	38,740	40,746	43,415
EBITDA	1,846	2,031	2,094	2,179
Deprec. & amort.	487	524	550	576
EBIT	1,372	1,522	1,442	1,475
Total other non-operating income	(5)	(5)	(5)	(5)
Associate contributions	13	13	13	13
Net interest income/(expense)	(16)	(34)	(40)	(36)
Pre-tax profit	1,531	1,486	1,517	1,579
Tax	(394)	(372)	(379)	(353)
Minorities	(6)	(7)	(7	(7)
Net profit	1,118	1,108	1,131	1,219

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	4,117	4,702	4,877	5,025
Other LT assets	64	7	7	7
Cash/ST investment	1,507	3,226	3,489	3,748
Other current assets	5,799	3,710	3,332	2,951
Total assets	11,487	11,646	11,705	11,731
ST debt	52	50	50	50
Other current liabilities	5,388	5,091	4,909	4,691
LT debt	100	375	484	593
Other LT liabilities	110	153	153	153
Shareholders' equity	5,768	5,885	6,008	6,137
Minority interest	68	74	80	86
Total liabilities and equity	11,487	11,646	11,705	11,731

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	(87)	3,103	1,702	1,744
Pre-tax profit	1,353	1,497	1,410	1,436
Tax	365	374	353	359
Other operating cashflows	463	502	529	556
Investing	(5)	-5	-5	-5
Capex (growth)	(1,275)	1,614	140	106
Others	(988)	(644)	(676)	(708)
Financing	(310)	(493)	(493)	(493)
Others/interest paid	(467)	(530)	(530)	(530)
Net cash inflow (outflow)	(14)	(14)	(14)	(14)
Beginning cash & cash equivalent	119	0	0	0
Ending cash & cash equivalent	52	52	52	52

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	4.9	4.9	4.8	4.8
Pre-tax margin	3.6	3.5	3.5	3.5
Net margin	2.5	2.6	2.6	2.6
ROA	8.3	8.4	8.8	9.2
ROE	16.4	16.7	17.2	17.6
Growth				
Turnover	2.2	0.1	5.1	5.1
EBITDA	15.6	0.1	3.4	5.2
Pre-tax profit	19.2	(3.3)	4.7	4.8
Net profit	21.5	3.5	4.7	4.8
Net profit (adj.)	30.5	(0.7)	4.7	4.8
EPS	30.5	(0.7)	4.7	4.8
Leverage				
Debt to total capital	2.5	6.7	8.1	9.4
Debt to equity	2.6	7.2	8.9	10.5
Net debt/(cash) to equity	(23.5)	(47.3)	(48.8)	(50.2)
Interest cover (x)	126.0	88.6	70.2	59.6

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